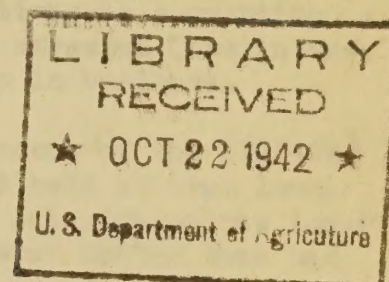


Apr. 30, 1939
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Washington

April 30, 1939

A REVIEW OF BUSINESS CONDITIONS
Confidential



Agricultural-Industrial Relations Section
A.A.A.

Washington

April 29, 1939

A REVIEW OF BUSINESS CONDITIONS

In the two months which have passed since the February review of business was prepared renewed apprehension that Europe is on the verge of a devastating war appears to have had rather sharp repercussions on economic trends in this country. Acute weakness which characterized security markets for a month preceding the recent low point of April 8th may have been in part due to failure of a resumption in the advance of productive activity to have made an appearance, before the decline in security prices started around mid-March; but a more reasonable explanation seems to be that businessmen became more and more apprehensive that a war might break out in Europe as the dictator nations continued to grab additional territory.

Whatever the cause such a rapid melting away of security values as occurred for the month preceding April 8th was almost certain to be reflected later in increased caution among businessmen. Already trade reports show that hand-to-mouth buying has increased greatly in recent weeks; that there has been some cancellation of orders, especially for luxury products; and that automobile sales have increased less than is usual for this season. Numerous corporate executives in submitting their first quarter reports to stockholders have stressed foreign uncertainties as a reason for the recent slowing up in business.

Industrial production receded from 104 percent of the 1923-25 average in December to 98 percent in February and held at that level through March. The first quarter average of 99, only two points lower than that of the final quarter of 1938, was somewhat better than had been rather generally anticipated.

Renewed Recovery Delayed

Largely as a result of the unfavorable trend in securities and in foreign political developments expectations of a renewed recovery in business by early spring have been nullified. Instead of renewed recovery April statistics are expected to show that the Federal Reserve Board index slumped about 4 points. The major portion of this rather sharp decline, however, was due to the bituminous coal strike and is not indicative of as great deterioration in fundamental conditions as its size might suggest.

Whereas an upturn in production had been anticipated by May 1st (see February review) reappraisal is now in order. It still appears probable that the current relapse is nothing more than a temporary phase in a general upward trend. Whether the delay in resumption of recovery will last for only a couple of months or for a considerably longer period depends in part on whether action of the dictator governments in the interim adds to or dispels some of the uncertainties now

in evidence. As a consequence of the delay in reappearance of industrial expansion and effects of the coal strike the Federal Reserve Board index in the June quarter of this year will probably be lower than that of the March quarter by at least as much as the latter was below the final quarter of 1938. Thus if any upturn at all occurs before mid-year it can hardly be sufficient to restore industrial operations to as high a level as at the beginning. Our earlier estimates for the year 1939 as a whole were suggestive of a Federal Reserve Board index of about 105 against 86 in 1938 but it now seems doubtful that production will be above its 1923-25 average of 100 in 1939.

The following tabulation presents some annual data on industrial production, employment, and national income for the past ten years and for the first quarters of 1938 and 1939.

Production, Employment and Income, U. S., 1929-1939

	<u>Industrial production</u>		<u>Nonagricultural employment</u> ^{3/}		<u>National income</u> ^{4/}	<u>Nonagric. unemployment</u> ^{4/}	
	<u>Volume</u> ^{1/}	<u>Value</u> ^{2/}	<u>At ordin- ary jobs</u>	<u>Emer- gency workers</u>		<u>Original A.A.A. estimates</u>	<u>Adjusted to Bigger's Census of November 1937</u>
	(1923-25=100)		----- (000) -----		(Mil.)	----- (000) -----	
1929	119	115	36,160	---	\$79,704	1,513	1,513
1930	96	91	33,982	---	73,542	4,289	4,377
1931	81	68	30,927	---	61,609	7,782	8,208
1932	64	50	27,775	---	48,644	11,363	12,143
1933	76	54	27,886	2,172	46,089	11,681	12,814
1934	79	67	30,359	2,482	53,172	9,637	11,124
1935	90	79	31,604	2,572	57,564	8,822	10,661
1936	105	93	33,467	3,416	64,809	7,388	9,580
1937	110	104	35,066	2,538	71,013	6,236	8,701
1938	86	76	32,747	3,374	66,022	9,055	11,563
1st quarter: ^{5/}							
1938	79	71	33,162	2,700 ^{6/}	65,920 ^{7/}	8,451	10,948
1939	99	86	33,301	3,563 ^{6/}	67,344 ^{7/}	8,814	11,341

^{1/} Federal Reserve Board indexes.

^{2/} Volume adjusted for wholesale prices, excluding farm products.

^{3/} Bureau of Labor Statistics estimates.

^{4/} A.A.A. series counting emergency workers as unemployed.

^{5/} Quarterly data after seasonal adjustment.

^{6/} Not adjusted for seasonal variation.

^{7/} Annual rate.

Unemployment Large, Increase in National Income Small

Despite a 20 point advance in the Federal Reserve Board index in the first quarter of 1939 as compared with the first three months a year earlier, employment of nonagricultural workers as estimated by the Bureau of Labor Statistics, increased only 138,000 (less than one-half percent). This increase was not nearly sufficient to absorb the increase in the labor force which took place during the year's interval so that the unemployment problem has not been relieved at all. Similarly, the year-to-year increase in national income shown by a comparison of first quarter results of this year with those a year earlier discloses but a very moderate advance.

In analyzing national income it has been found that conditions for a given year have quite an influence on income for the following year. Thus, the low rate of industrial production in 1938 is still being reflected in a small recovery in national income, relative to that in productive activity. Presumably, this retarding effect of 1938 conditions on the rise of income should become less as the year 1939 advances but it is doubtful that national income paid out will increase more than about 2 billion dollars in 1939, unless the index of industrial production is higher on the average than it was in the first quarter which now seems doubtful. The expected pattern of industrial production, as measured by the Federal Reserve Board index, by quarters for 1939 is as follows: first quarter--99 (actual); second, 96; third, 99; fourth, 104; annual average, 100.

The Farm Income Outlook

As a result of the downward revision in the expected rate of industrial production and national income in 1939 the farm income outlook is somewhat less favorable than was anticipated earlier. Whereas expectations were that cash farm income in 1939 would be about 5 percent greater than in 1938, little if any gain is now expected. Farm cash income from sales in each month of the first quarter were lower than for the corresponding month a year earlier. The total of 1,495 million dollars during the first three months of 1939 was 4.8 percent less than in the first quarter of 1938. The difference was entirely made up, however, by increased government payments which increased from 108 to 192 million dollars and lifted total cash farm income 8 million dollars above last year.

The effect of burdensome supplies of farm products and poor export demand have continued to offset the influence of a partial restoration of buying power of domestic consumers, and farm prices have continued to recede. These unfavorable influences will continue to offset in part at least the expected moderate gains in nonagricultural income and buying power during the remainder of this year and to retard recovery in farm income.

Ten-Year Deficiency in Industrial Production

An attached chart shows the trend of per capita industrial production in the United States from 1863 to 1939. The trend line shown on this chart, drawn through the 1863 to 1929 data, has been extended through 1940. On the basis of this projected trend it is apparent that industrial production has shown a deficiency each year for the past ten years (the 1939 position is estimated). The average deficiency for this ten year period as compared with the projected trend has been 30 percent. Whereas industrial production averaged 89 percent of the 1923-25 average during the 1930-39 ten year period it should have averaged 127, or 43 percent greater, to have continued the per capita trend outlined on the chart. This deficiency in production has been accompanied by an acute unemployment problem among nonagricultural workers (see earlier tabulation).

It is interesting to note that the projected per capita trend would call for a Federal Reserve Board index of about 138 in 1940 which, according to our estimates, would still leave about $4\frac{1}{2}$ million of the nonagricultural workers without jobs at ordinary pursuits. A Federal Reserve Board index of 138 in 1940 would probably be accompanied by a rise to 80 billion dollars in the national income. Any such rise both in production and income for 1940 is, of course, not in the realm of probability. Thus, by the time that an 80 billion dollar national income is achieved, a minimum figure which has been frequently mentioned as necessary to a restoration of prosperous conditions, there probably will have been a further substantial increase in the working force of the country. Unemployment will be about one-half million greater than the $4\frac{1}{2}$ million mentioned above for each year of delay after 1940 in attaining an 80 billion dollar national income. It is, therefore, apparent that a considerably higher national income than 80 billion dollars will be necessary in the next three to five years if the agricultural working force is to be fully utilized.

The Inventory Situation

Since the February review of business was prepared another inventory survey has been made by Dun's. This has been used in revising our monthly inventory series. The revised data are shown on an accompanying chart. In the top part of this chart it will be seen that factory production was lagging far behind current consumption during the early months of 1938; that output gained relative to distribution as recovery progressed until during the first quarter of 1939 about 5 percent more goods were apparently produced than were distributed to consumers. During the first quarter of 1938 production averaged about 8 percent less than distribution.

The basic data used for computing the trend of inventories pictured on the accompanying chart show that factory production in

1936 should have averaged about 93 percent of the 1923-25 average rather than 105 to prevent an increase in inventories. Similar computations for 1937 indicate that a rate of 94 rather than 109 would have been necessary to prevent a further increase in inventories; and in 1938 factory production could have been maintained at 95 rather than 84 except for a reduction in inventories. These estimates assume the same efficiency in production at the different estimated levels as at the actual levels reported for the individual years. As previously stated, factory output exceeded distribution to consumers by about 5 percent during the first quarter of this year. Excess production is usual for the season and if consumption remains only as high, after seasonal adjustment, for the remainder of the year as during the first quarter factory output can probably be maintained around the first quarter average without increasing inventories for the year as a whole.

Whereas the overall inventory situation, as discussed up to this point and as pictured in the top part of the accompanying chart, does not appear to give cause for concern, manufacturers' inventories of steel products and dealers' stocks of new cars are not so encouraging. In the case of manufacturers' inventories of steel it must be recognized that the estimates are very rough approximations and that no data concerning steel in the hands of users are available. In this respect it may be mentioned that a recent confidential study by the Federal Reserve Board shows that users' inventories of steel products are becoming depleted. Nonetheless, it is significant that the rate of steel mill operations recently have been trending definitely downward, suggesting some validity to the inventory estimates pictured on the chart.

As for estimates of automobile inventories, the data on which they are based are fairly reliable. Dealers' stocks are unusually heavy and distribution to consumers has not been up to seasonal expectations since February. These high dealer stocks and intentions of automobile manufacturers to introduce new models a month earlier than is usual may necessitate a considerable decline in automobile production in the next two or three months after allowance for seasonal factors. It goes without saying that failure of automobile and steel production to maintain seasonal trends in the next two or three months would have a considerable drag-down influence on the Federal Reserve Board index of production, movements in which are greatly influenced by trends in these two industries. Should a decline in consumers' goods coincide with this expected revision in automobiles and steel the index might slip off considerably. Recent reports state that orders for cotton textiles have been running well below production and that the cotton textile industry is planning to reduce output. This, together with the fact that the consumer group of commodities in the Federal Reserve Board index has remained at a high level in recent months, while the general trend of productive activity has been moderately downward, emphasizes the danger of a further decline in industrial production in the period immediately ahead. The outlook as here outlined largely explains our expectation

of a lower average index of production in the current than in the first quarter as stated earlier in this review.

The Construction Outlook

Two charts which are attached show the trend of building contracts awarded. It is apparent that (except for residential building which has entirely maintained the higher levels to which activity rose late last year) construction contracts have shown a declining trend since last December. No doubt the effect of heavy contracts which were let late in 1938 on employment of building workers and on creating a market for building materials is a sustaining influence in the general economic situation at the moment. The downward trend in contracts which has been in effect since the beginning of 1939, however, suggests that construction in the later months of this year is apt to be a stabilizing rather than an energizing influence in the general economy.

Prices and Living Costs

Wholesale prices continue to drift lower. Declines during the past month and since the start of the year have been particularly marked in the farm products, food, and hides and leather groups. There has been no further decline in the index for all commodities other than farm and food either during the past month or during the year to date, gains in the textile and miscellaneous groups having offset declines in housefurnishings, chemicals and drugs, while building materials, metals and metal products and the fuel and light groups have remained approximately stable. There has been some weakening in the metal group recently due principally in copper and steel scrap.

Due largely to continued declines in retail food prices, the downward trend in living costs which first appeared late in 1937 has continued. A given quantity of food in March cost the urban worker approximately 12 percent less than at the peak in May 1937. Other items of the urban worker's budget require a greater outlay now than in May 1937 though the nonfood items have declined almost 1 percent since their peak which was reached in December 1937. The extreme decline in the urban worker's total living budget from the September 1937 peak until March of this year amounted to almost 5 percent.

The tendency of urban living costs to continue to decline for almost a year after the upturn in income has had the effect of increasing the volume of goods which the income of domestic consumers will purchase. Inasmuch as the decline in living costs has been due largely, however, to substantially lower food prices farmers have failed to benefit. Prices received by farmers reached new lows for the current period both in March and April, and the increased to-market movement of farm products has failed to give the farmer as large a share of the national income as in 1937 and 1938.

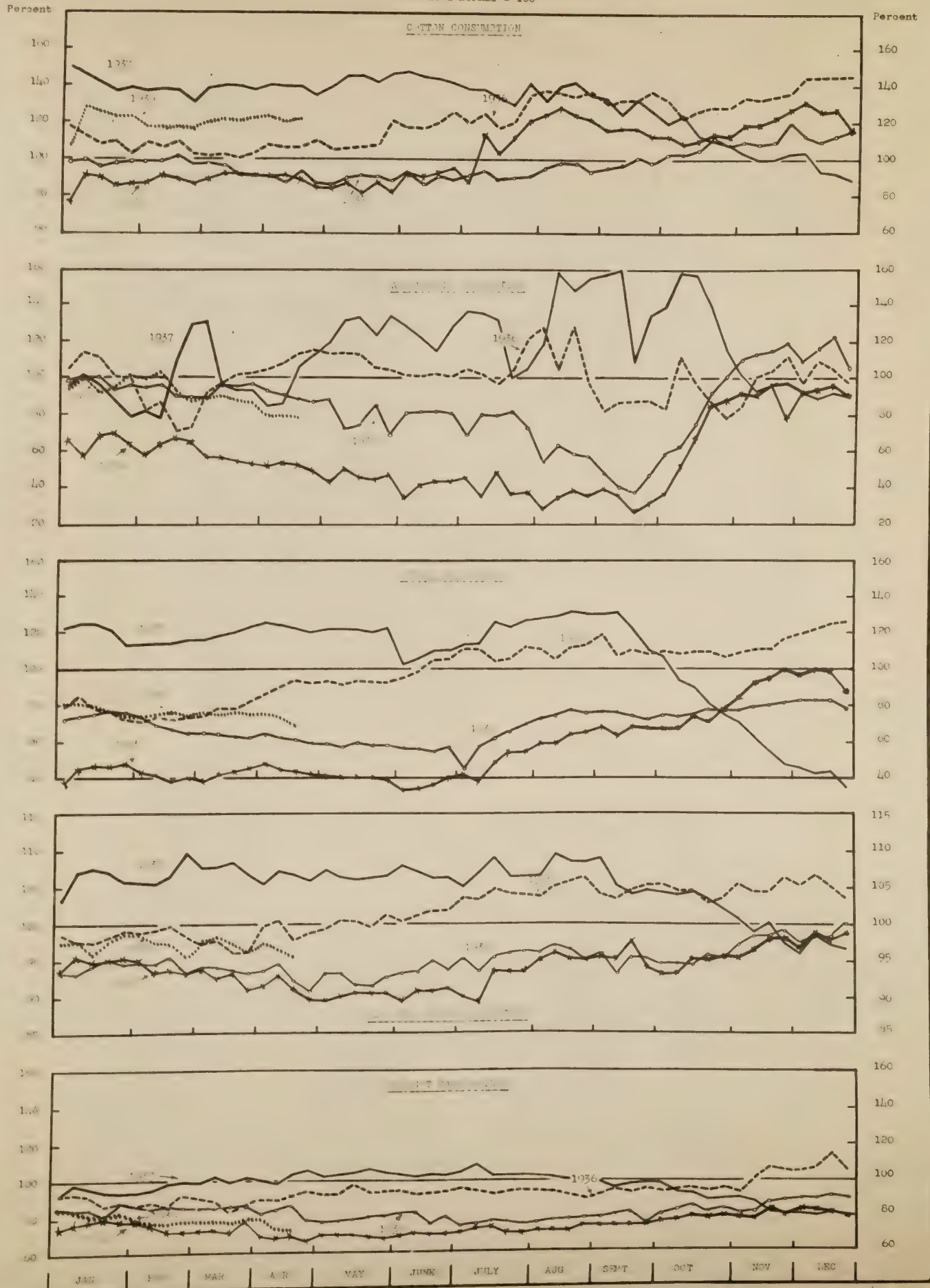
STATISTICAL SUMMARY OF THE BUSINESS SITUATION
(Indexes, High 1929 = 100;
Adjusted for seasonal variation except as noted)

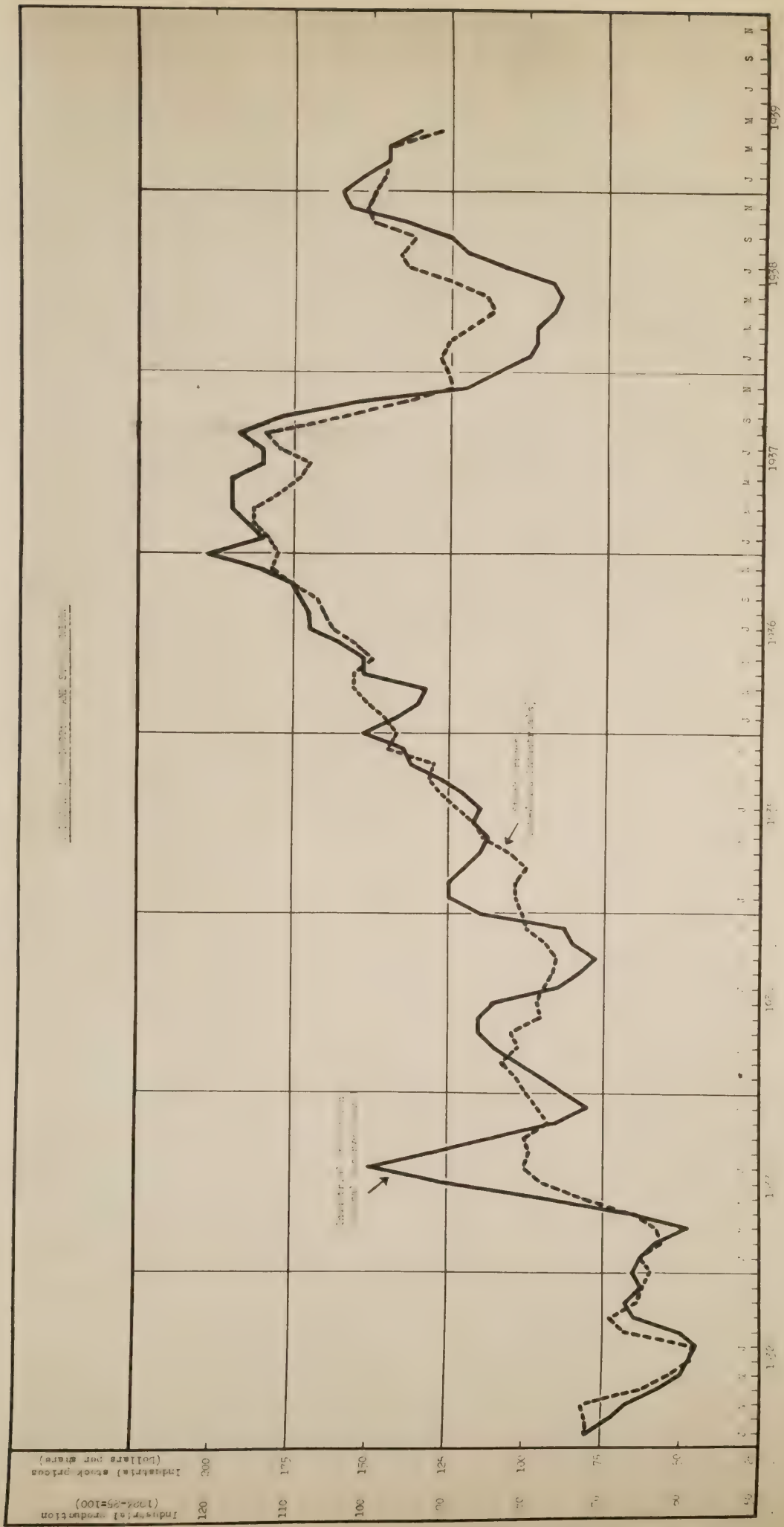
	: Latest	: Pre-	: Year	: 1937	: 1932	: 1929
	: month	: ceding	: ago	: High	: or	: High
		: month			: 1933	
					: Low	
<hr/>						
INCOME:						
Farm.....	67 (Mar.)	60	66	86	33	100
Nonagricultural....	83 (Mar.)	84	81	89	54	100
National.....	82 (Mar.)	82	80	89	52	100
PRODUCTION:						
Industrial.....	78 (Mar.)	78	65	94	46	100
Durable goods.....	59 (Mar.)	62	40	94	19	100
Nondurable goods....	92 (Mar.)	91	78	101	67	100
Automobiles.....	59 (Mar.)	64	35	103	10	100
Steel ingots.....	55 (Mar.)	58	32	95	15	100
Textiles.....	91 (Mar.)	91	67	107	49	100
Building contracts..	54 (Mar.)	58	37	54	11	100
TRADE:						
Dept. store sales..	78 (Mar.)	77	76	84	51	100
Rural retail sales..	89 (Mar.)	80	76	95	34	100
New passenger cars..	58 (Mar.)	62	39	90	18	100
Carloadings.....	60 (Mar.)	61	55	76	44	100
Exports*	51 (Mar.)	41	52	63	19	100
Imports*	46 (Mar.)	38	42	75	19	100
PRICES:*						
All commodities.....	79 (Mar.)	80	83	91	62	100
Farm products.....	61 (Mar.)	62	65	87	38	100
Foods.....	68 (Mar.)	69	71	85	52	100
Nonagricultural.....	84 (Mar.)	84	87	93	68	100
Raw materials.....	71 (Mar.)	71	74	91	49	100
Finished products..	84 (Mar.)	84	87	93	69	100
Prices rec'd. by						
farmers.....	59 (Apr.)	60	62	86	36	100
Prices paid by						
farmers.....	77 (Apr.)	77	81	86	65	100
Cost of living.....	81 (Mar.)	82	82	85	73	100
EMPLOYMENT IN MANUFACTURING:						
.....	84 (Mar.)	84	81	101	57	100
UNEMPLOYMENT, TRADE UNIONS*.....						
.....	170 (Apr.)	180	254	141	405	100

*Series not adjusted for seasonal variation.

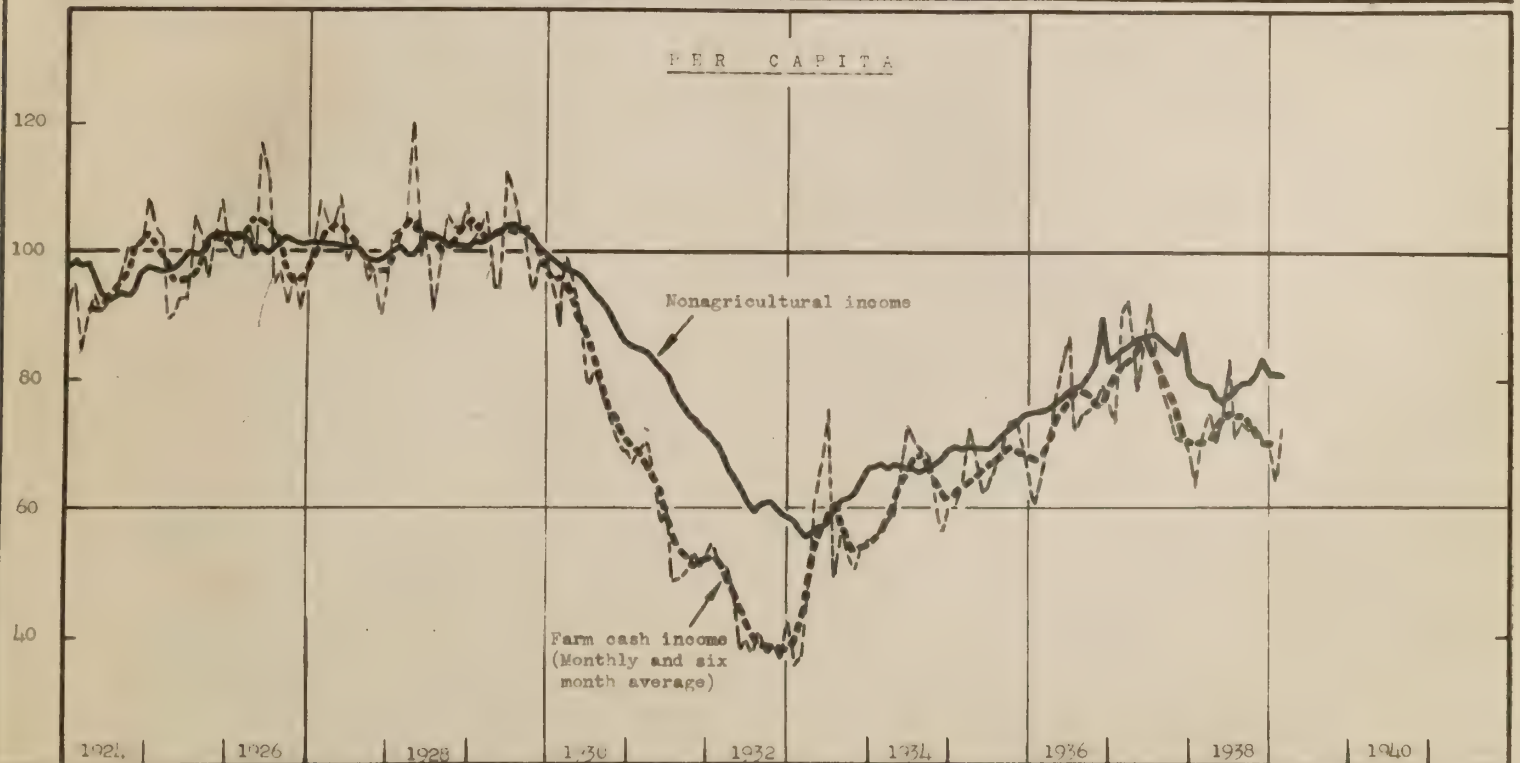
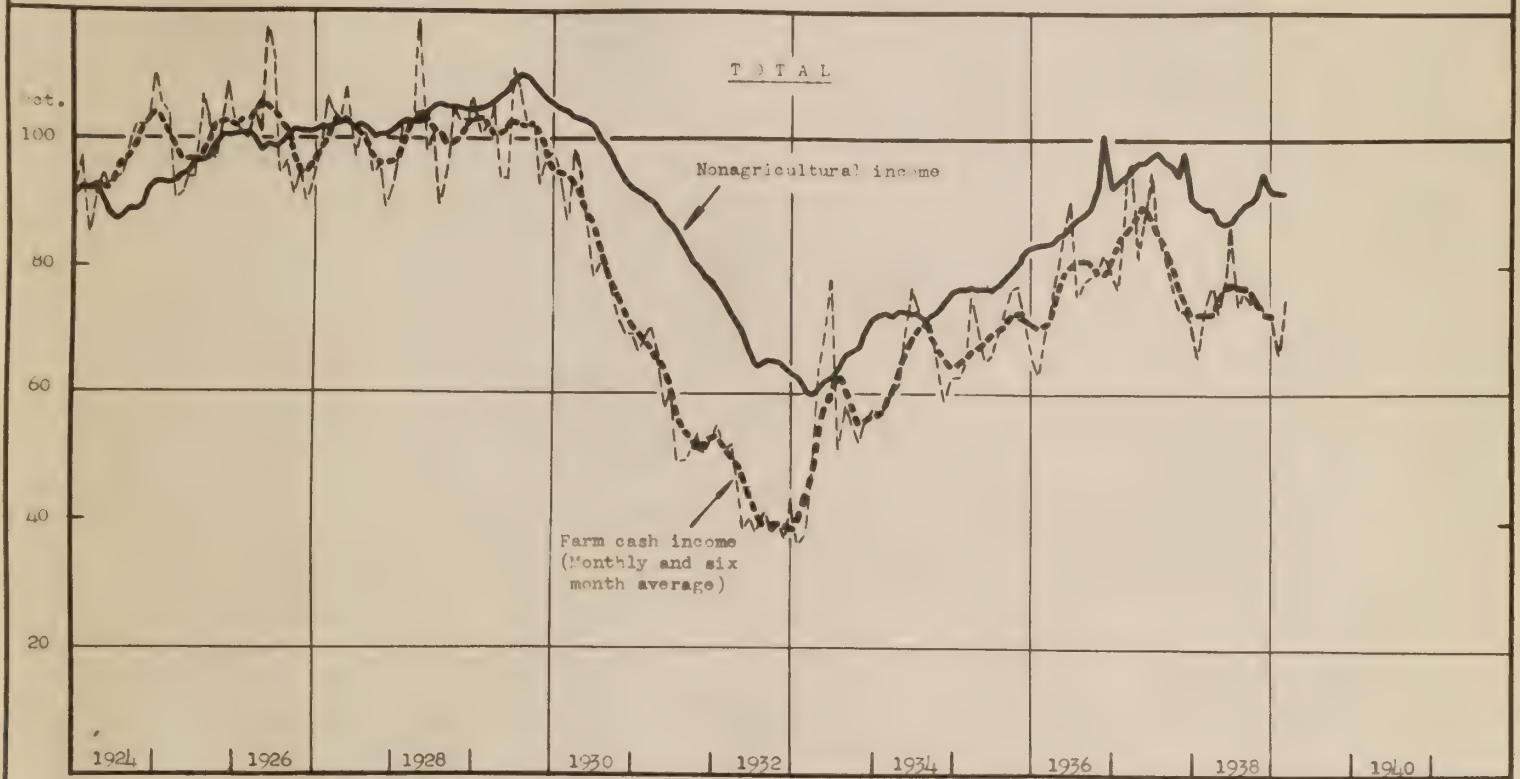
WEEKLY BUSINESS INDICATORS

Adjusted for Seasonal Variation
Estimated Normal = 100

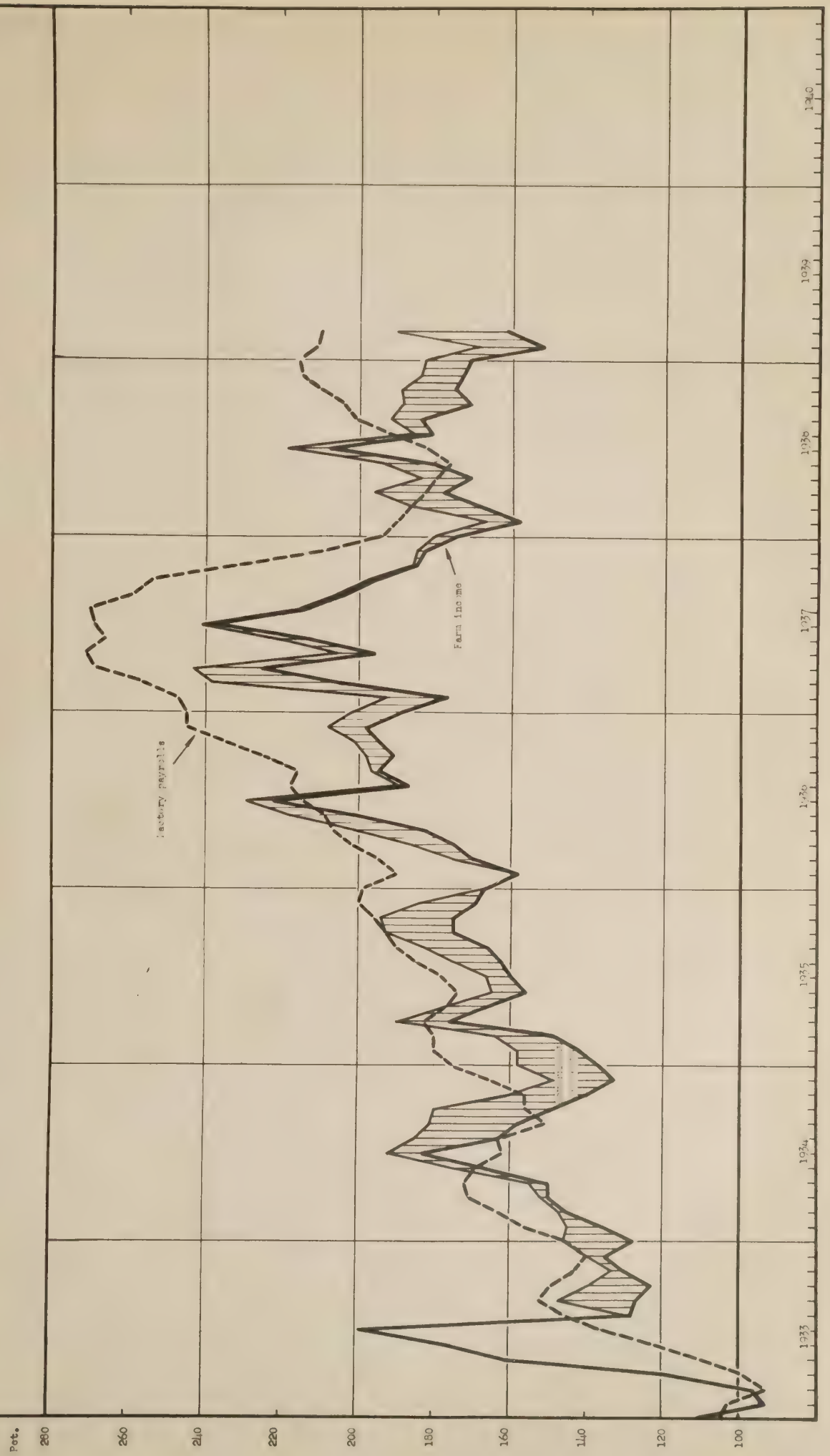




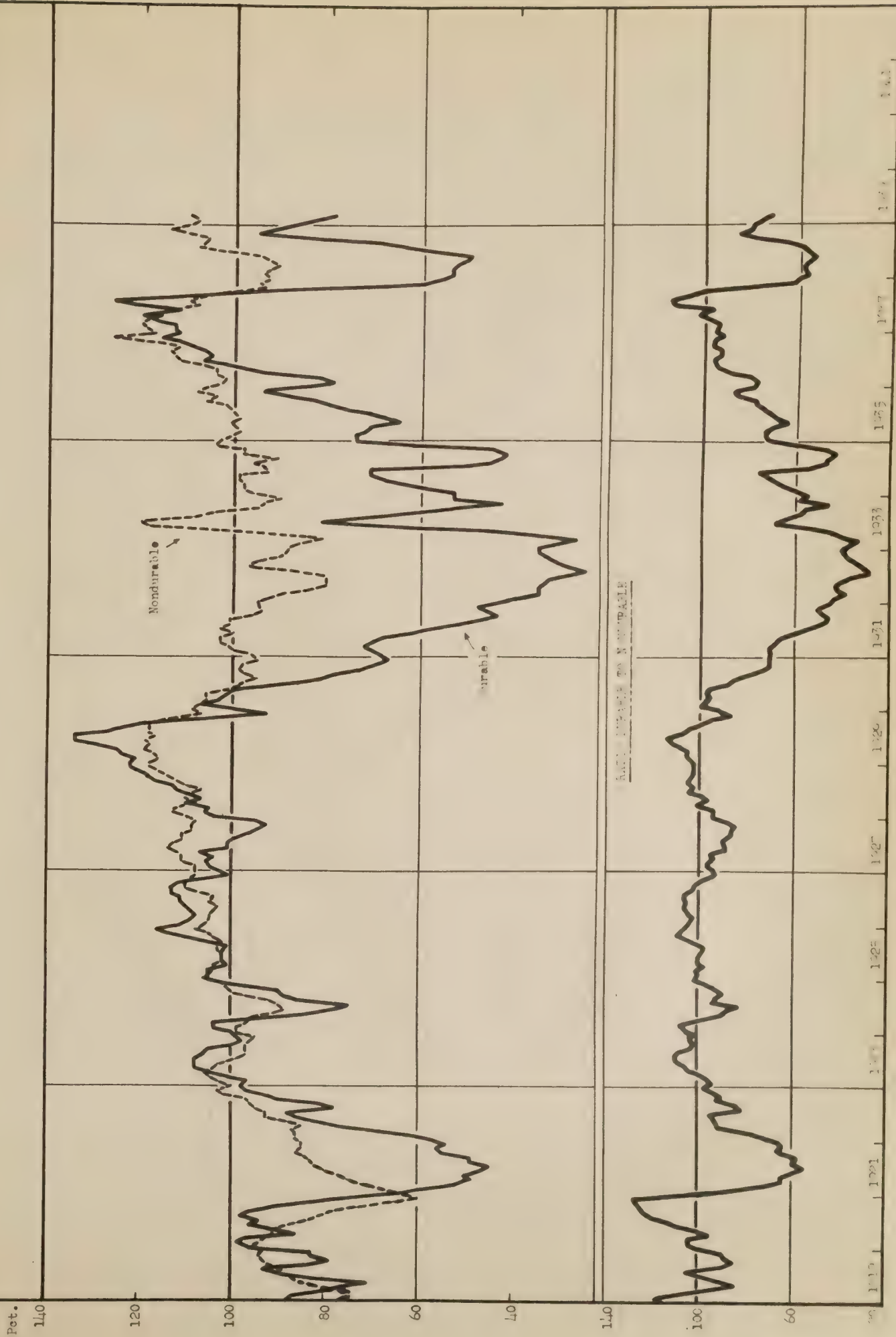
INDEXES OF NONAGRICULTURAL AND FARM CASH INCOME, TOTAL AND PER CAPITA
Seasonally corrected indexes, 1924-29=100

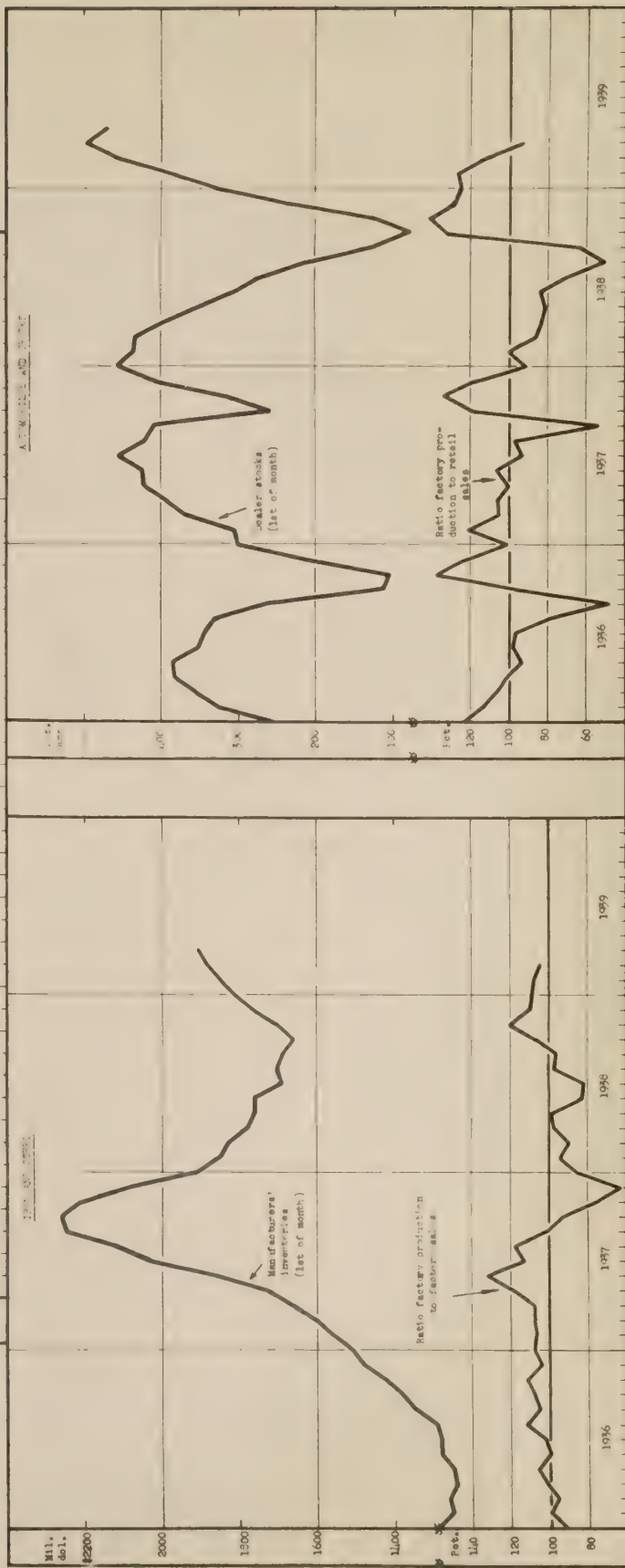
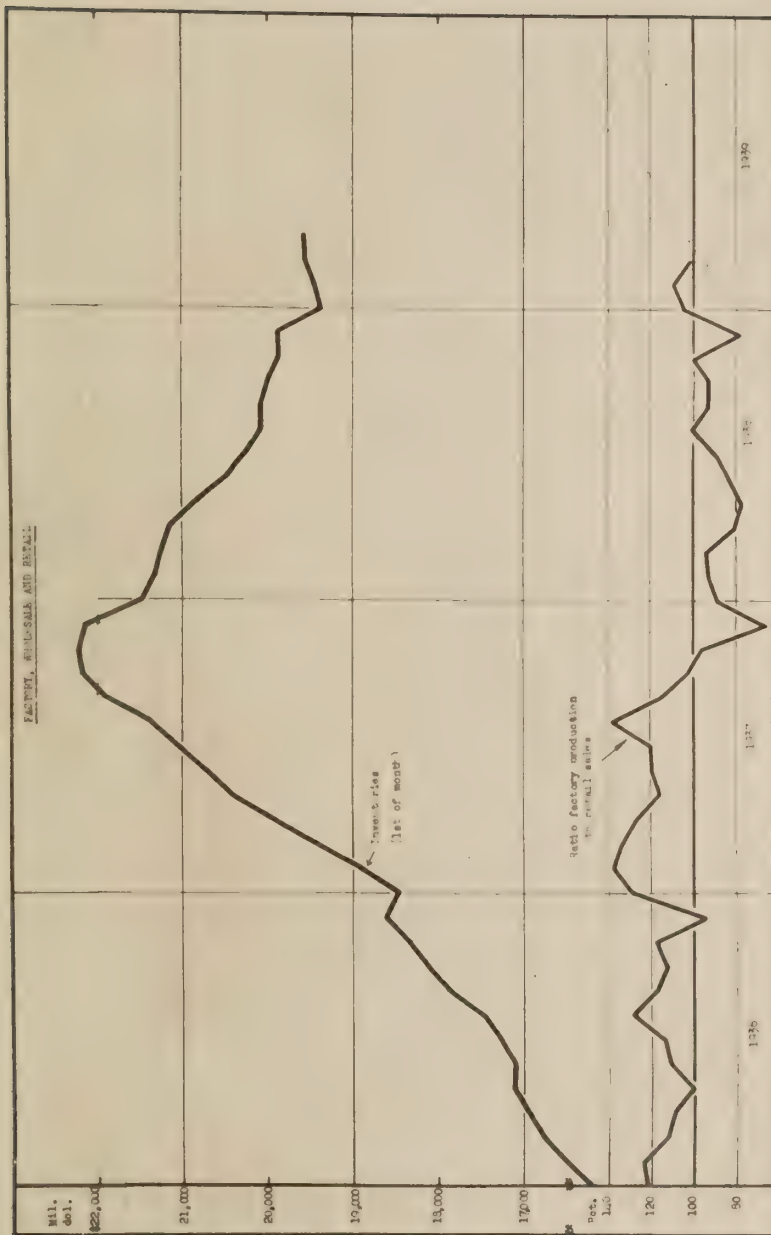


243 FARM INCOME AND FACTORY PAYROLLS, JANUARY 1933 TO DATE
(Seasonally corrected indexes, First quarter 1933=100)



FACTORY PRODUCTION OF DURABLE AND NONDURABLE GOODS, AND RATIO OF FORMER TO LATTER, 1919 TO DATE
Adjusted for seasonal variation (1927-28=100)





PER CAPITA INDUSTRIAL PRODUCTION, U. S., 1863-1939
(1923-25=100)

Ratio scale

120

100

80

60

40

20

10

1863

1870

1880

1890

1900

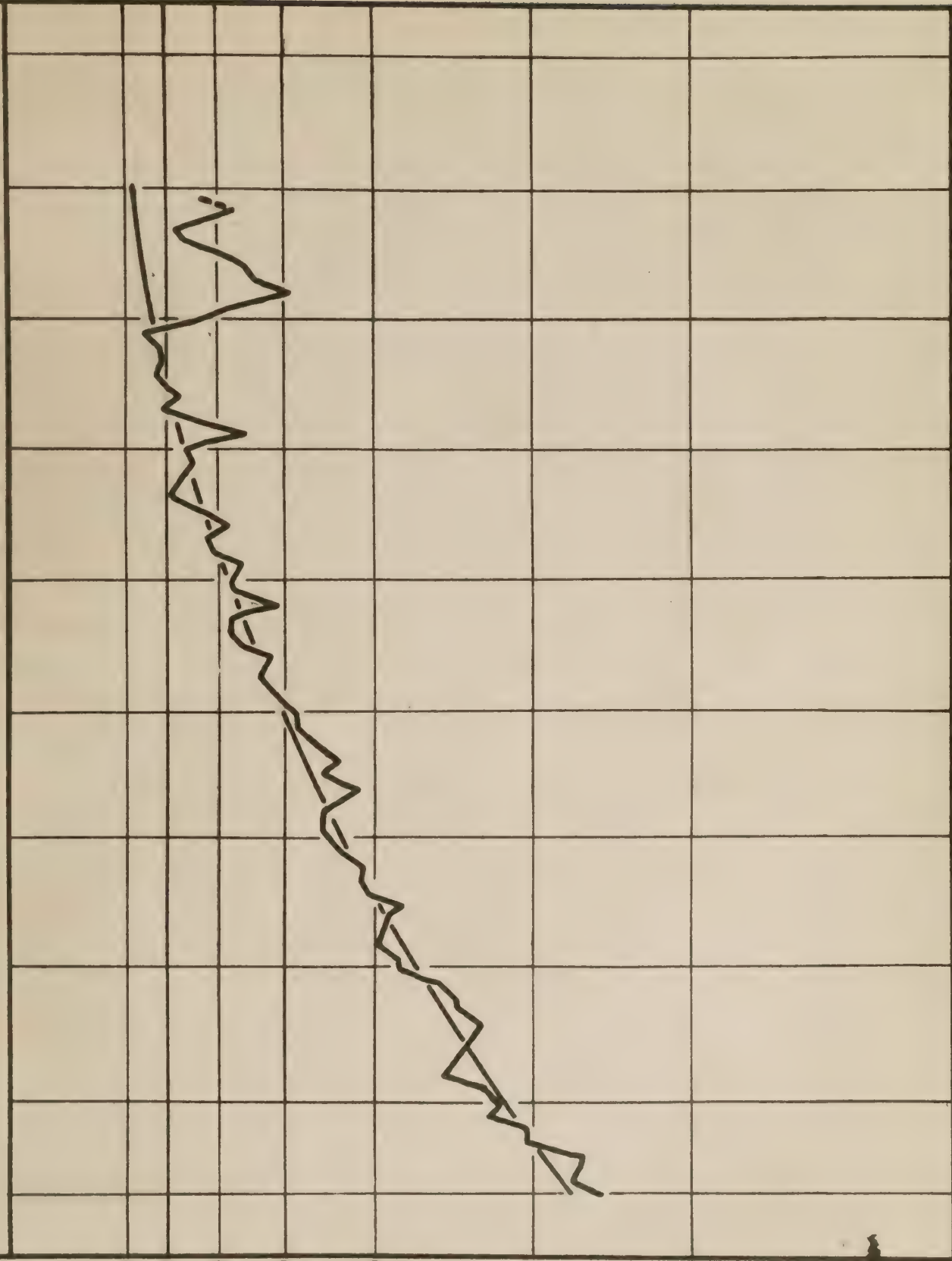
1910

1920

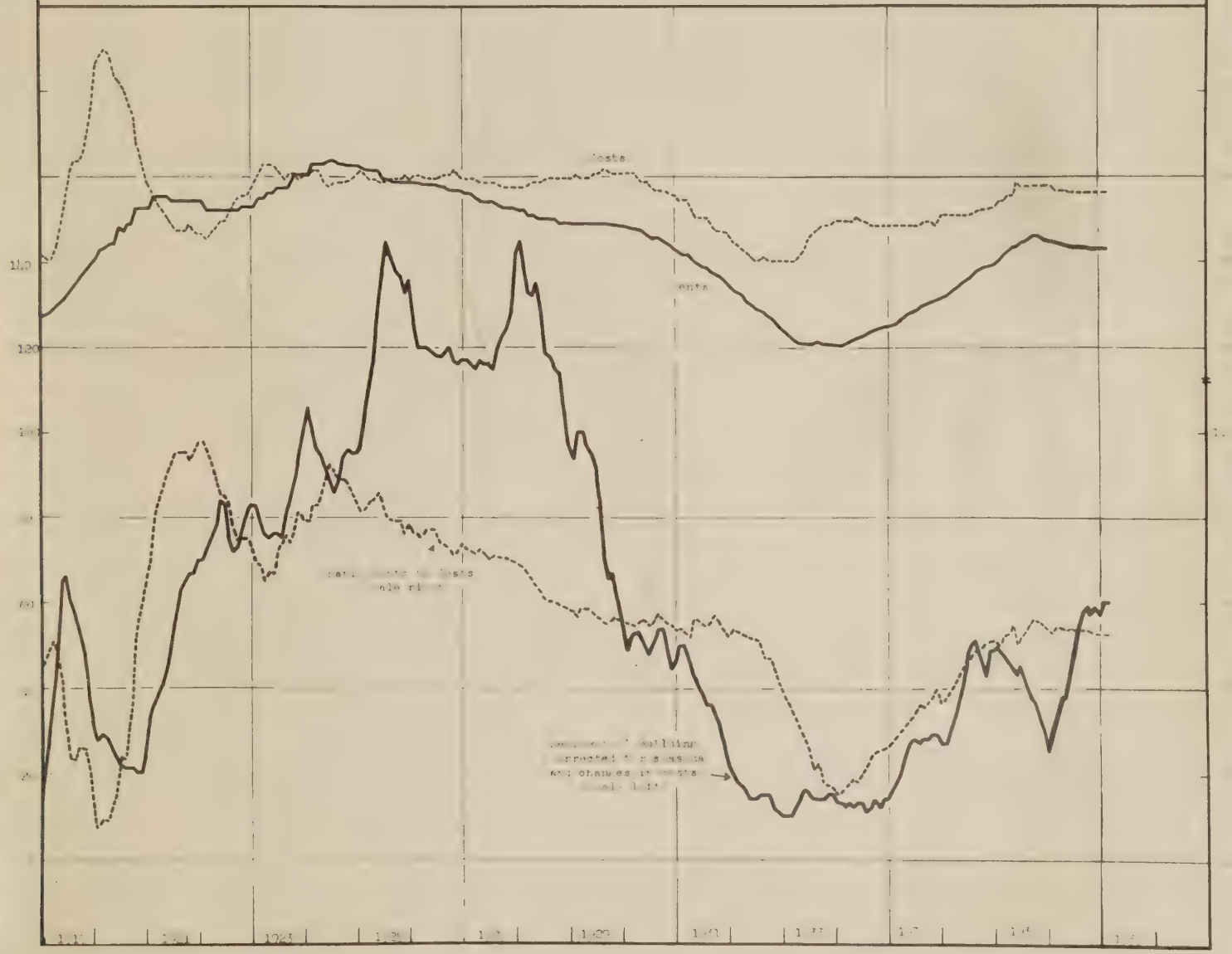
1930

1940

1950



CATTLE MARKET 1910-1911 (Continued)



Million
dollars

Million
dollars

Nonresidential

Total all types

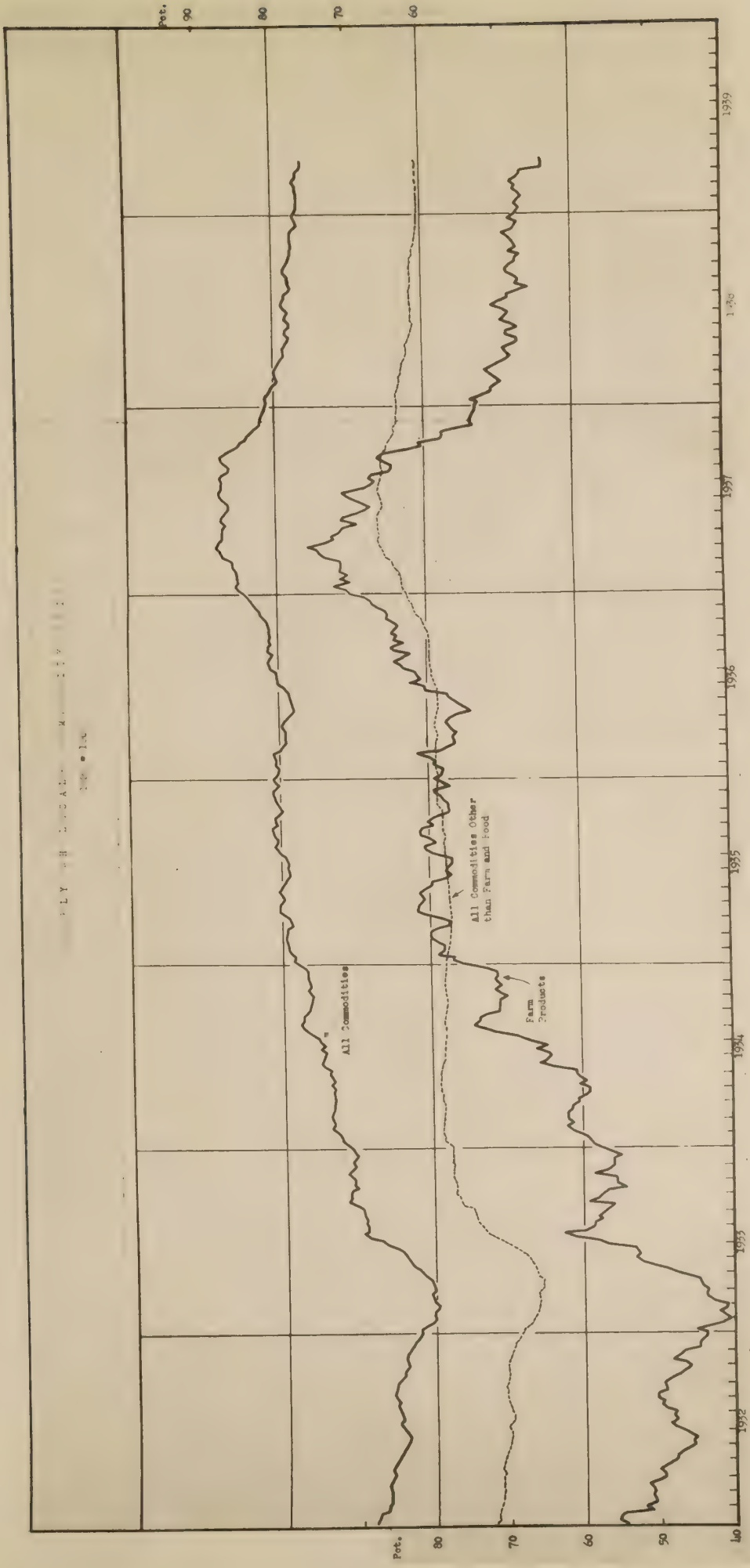
Residential
and nonresidential

Residential

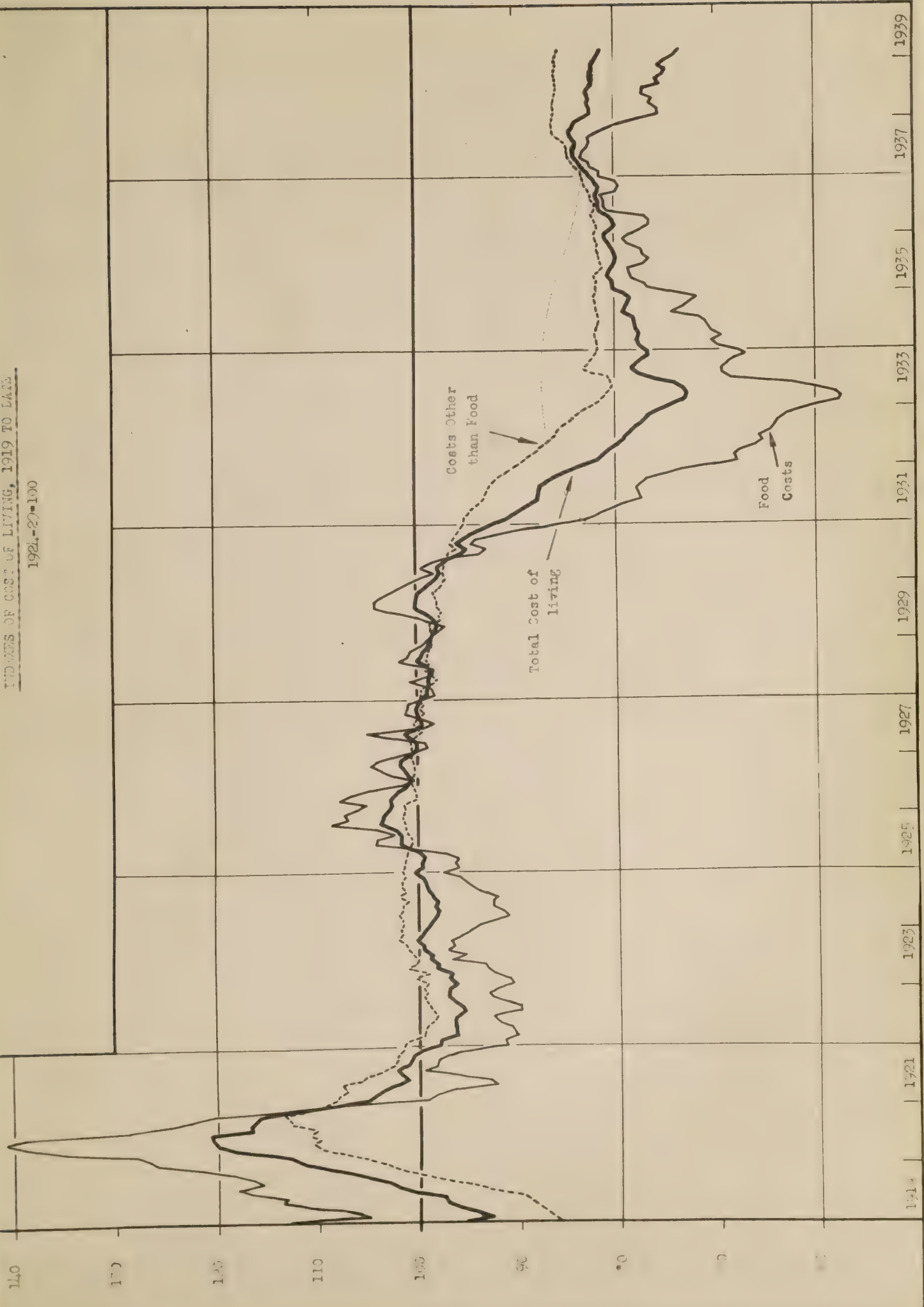
U.S. Housing Starts
1920-1930
(Million dollars)



U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE
WASHINGTON, D.C. 20250

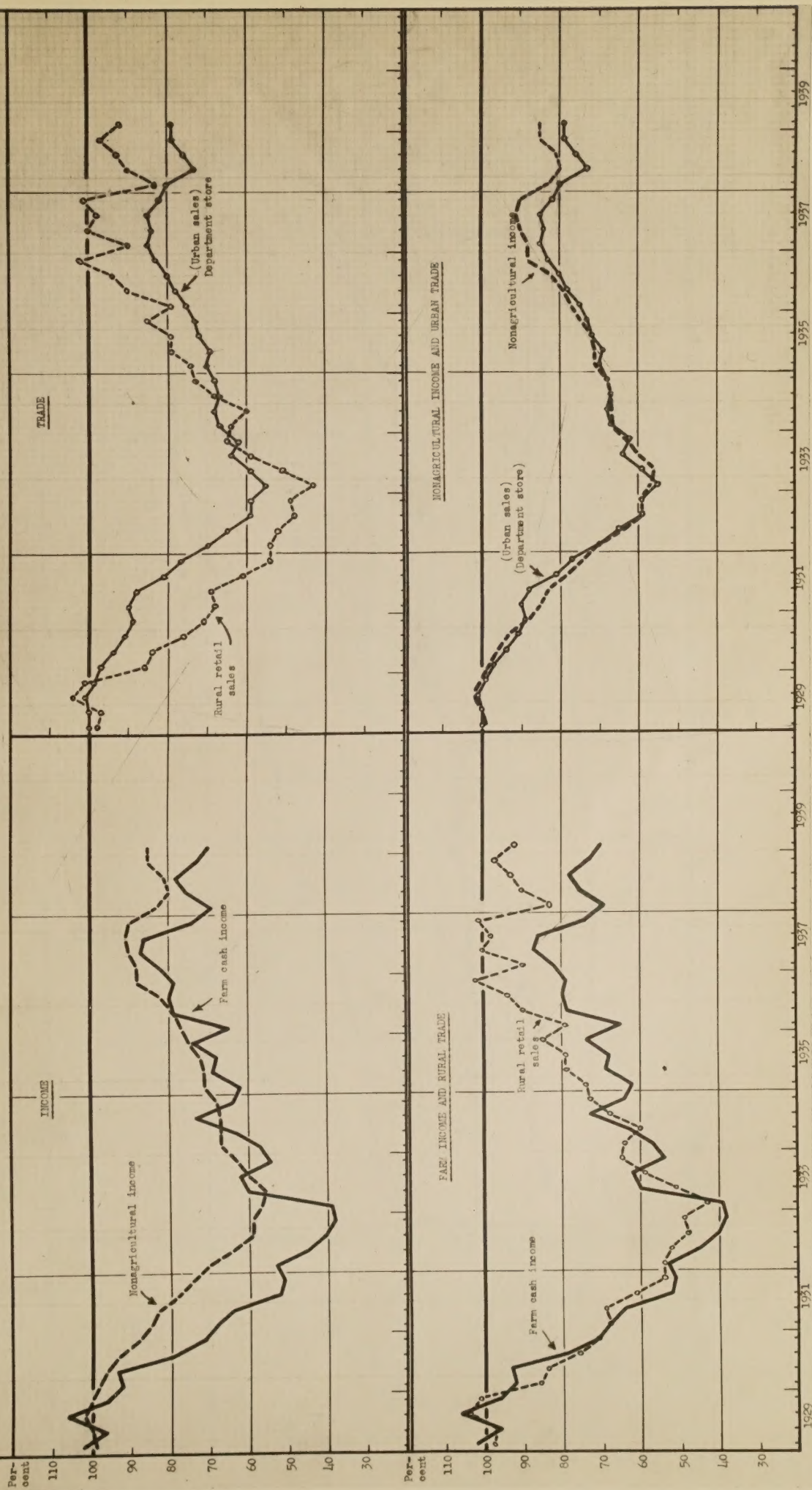


INDICES OF COST OF LIVING, 1919 TO DATE
1924-25=100



INCOME AND TRADE

Indexes of Farm and Nonagricultural Income, Rural Retail Sales, and Department Store Sales, Quarterly, 1929 to Date
Seasonally corrected - 1929=100



CONDITION OF FEDERAL RESERVE BANKS AND WEEKLY REPORTING
MEMBER BANKS IN 101 LEADING CITIES

Source: Federal Reserve Board



